Insurance Corporation of British Columbia

Service Plan

2011 – 2013

February 2011

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Insurance Corporation of British Columbia

Library and Archives Canada Cataloguing in Publication Data

Insurance Corporation of British Columbia.

Service plan. — 2002/2004-Annual.

Also available on the Internet.
Continues: Insurance Corporation of British Columbia. Performance plan.
1. Insurance Corporation of British Columbia – Planning - Periodicals. I. Title. II. Title: Insurance Corporation of British Columbia ... service plan. III. Title: ICBC service plan.

HG9970.A68C36 368.'092'068409711'05 2005-960261-9
Service Plan 2011–2013

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Introduction

Purpose

The Insurance Corporation of British Columbia's (ICBC) 2011 – 2013 Service Plan presents an overview of our three-year plan to fulfill responsibilities for providing vehicle insurance, driver licensing, and vehicle licensing and registration services. In this Service Plan, we set out our performance accountability to the public by describing:

- Where we envision ourselves in three years;
- The goals and objectives we need to achieve to realize this vision; and
- How we define and measure progress on achieving these goals and objectives.

In 2012, we will publish our 2011 Annual Report detailing our progress in achieving the goals set out in this Service Plan. The Service Plan and Annual Report are companion documents and central to the broader accountability framework for Crown corporations. In developing the Service Plan, we have relied on guidance from various sources, including the following:

- The Shareholder's Letter of Expectations between ICBC and government, which can be found on **www.icbc.com**.
- The provincial government's *Crown Corporation Service Plan Guidelines*, September 2010, which can be found on **www.gov.bc.ca**.
- The Legislative Assembly of BC's Select Standing Committee on Crown Corporations (SSCCC) in *A Guide to Operations*, April 2003, which can be found on **www.leg.bc.ca**.

Balancing Accountability and Commercial Sensitivity

We are committed to providing customers and the public with information needed to understand our plans and to evaluate our performance against those plans. This is fundamental to the governance of any Crown corporation.

We compete with other insurance companies in the sale of optional vehicle insurance products in BC. Due to commercial concerns, this Service Plan does not provide specific competitive information pertaining to our Optional insurance business.

Letter from the Chair of the Board

The Honourable Rich Coleman
Minister of Public Safety and Solicitor General
Government of British Columbia

Dear Minister,

On behalf of ICBC's Board of Directors and employees, I am pleased to present our 2011 – 2013 Service Plan.

We continue to be guided by our vision to be BC's preferred auto insurer, providing protection and peace of mind. While there are no major changes to our strategic direction since the last Service Plan, we are continuing to provide greater focus to our corporate goals and objectives and better alignment of strategic activities to support achievement of our corporate strategy.

Over the next three years, ICBC will be focusing on business renewal efforts through the Transformation Program. It is a suite of projects that will help the company achieve our corporate strategy by making things simpler for both customers and employees, by putting the right systems and business processes in place to support new ways of doing things. Our new systems, changes to processes and workforce culture will help us better meet our customers' needs and better maintain the support of our business partners. We are making these much-needed changes to ensure ICBC can continue to deliver solid results into the future, meet the demands of customers, and improve the employee experience.

Our corporate goal is focused on our customers: to improve our customers' experiences and perceptions of us. In order to achieve this, we use the following objectives to guide us: improving customer perception, improving employee engagement, and maintaining financial stability. This Service Plan outlines how we will achieve these goals and measure our success.

Improving our customers' perceptions of us is a key strategic focus. We want to make things more hassle-free and transparent for our customers, which includes things like improved claims handling, more choice in how they deal with ICBC, and less paperwork. Achieving our vision of being BC's preferred auto insurer will depend on our people being engaged, inspired, and confident in their roles and in the company. We will focus on developing workforce capability, capacity, and implementation readiness to realize the benefits of the new business systems and processes. Our strong financial performance over the last several years has allowed us to provide greater value to our customers by keeping rates low and stable. In 2010, Basic rates were decreased by 2.4%. Optional insurance rates were, on average, reduced by three per cent in 2010, for a total decrease of approximately 20% since 2005. To maintain financial stability we will continue to have a conservative investment philosophy and manage operating costs prudently. The most significant cost pressure to our business is bodily injury claims costs. We will work to manage this pressure by streamlining claims handling and cost controls and investing in road safety enhancements.

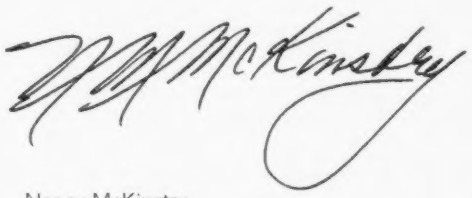
We will also continue to partner with law enforcement and other stakeholders on awareness campaigns around road safety issues, community volunteer programs, and work with local municipalities on road improvement projects. Ongoing community programs include the United Way fundraising campaign and Giving Back to Communities, which is based on volunteering or team fundraising activities with registered charities.

The insurance industry is affected by external factors, risks, and regulatory trends which impact insurers' profitability and rate stability. During 2009, increasing claims costs and the impacts of an unstable global economy challenged the Canadian property and casualty (P&C) industry. During the first half of 2010, however, industry results were mixed. Despite the continued uncertainty in financial markets and instability in the Canadian P&C market, ICBC's position is sound and we continue to fare well relative to the industry. We have a conservative investment philosophy and are managing our insurance operations prudently, which allows us to keep rates low and stable over the long term for our customers.

Looking forward, our outlook remains optimistic. We will strengthen our relationships with customers and our partners. We continue to make much-needed investments in our aging customer service systems, and through underwriting and pricing improvements we continue to move towards driver-based pricing where premium rates will be more reflective of driver risk. Our current financial position is strong.

ICBC's 2011 – 2013 Service Plan was prepared under the direction of the Board of Directors in accordance with the *Budget Transparency and Accountability Act* and the *BC Reporting Principles*. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events, and identified risks, as of January 20, 2011 have been considered in preparing the plan. The performance measures presented are consistent with ICBC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of ICBC's operating environment, forecast conditions, risk assessment, and past performance.



Nancy McKinstry
Chair, Board of Directors

Overview of ICBC

Vision

ICBC will be BC's preferred auto insurer, providing protection and peace of mind.

Mission

We deliver quality auto insurance products and services at competitive prices through a knowledgeable team committed to our customers.

Values

Integrity

- Our business is based on trust. We are honest, ethical, straightforward, and fair.

Dedication to Customers

- We exist to serve our customers. We listen actively and are responsive to their needs.

Accountability

- We hold ourselves and each other accountable for our actions and the success of our business.

Caring

- We care about our customers' well-being and ensure they feel supported by treating them with dignity and respect.
- We care about each other's well-being and create an environment that promotes personal growth.
- We care about our communities by supporting road safety programs and being environmentally responsible.

Insurance Services

ICBC is a provincial Crown corporation established in 1973 to provide vehicle insurance to British Columbia's motorists. We are the sole provider of universal compulsory coverage (Basic insurance) in the province, and our Basic rates and service are regulated by the British Columbia Utilities Commission (BCUC). We also sell Optional auto insurance products in the competitive marketplace.

Under Basic insurance, private passenger and commercial vehicle owners are provided with $200,000 in third party liability protection, $150,000 in no-fault accident benefits, and $1 million of underinsured motorist protection. Buses, taxis, limousines, and extra-provincial trucking and transport vehicles have higher mandatory levels. Under Optional insurance, the coverages that we offer include, but are not limited to, extended third party liability, collision, comprehensive, coverage for new vehicles, and vehicle storage. For a complete list of our Optional insurance products, please visit **www.icbc.com**.

Auto insurance in BC is based on a full tort system, which means that an injured party is entitled to take legal action against the at-fault party for damages. In addition, the insured injured party has access to accident benefits, including up to $150,000 in medical and rehabilitation expenses and up to $300 per week for wage loss, through ICBC Basic insurance, regardless of fault. Our coverage level for medical and rehabilitation expenses is the highest in Canada when compared to any other province with a tort-based system.

In contrast, in some other provinces in Canada auto insurance is based on some variant of no-fault or mixed no-fault and tort systems. This means compensation can be based on predetermined benefit schedules, threshold schemes, and/or caps or deductibles on pain and suffering awards, and there may be limited or no ability to sue for additional damages.

ICBC operates as an integrated company that provides significant benefits to customers in terms of costs and convenience. With annual earned premiums of approximately $3.7 billion,[1] approximately $13 billion in assets, and approximately 5,200 full-time equivalent (FTE) employees, we are one of the largest property and casualty insurers in Canada. For more information on our products and the auto insurance system in British Columbia, please visit **www.icbc.com**.

[1] Please refer to the Summary Financial Outlook table on page 26.

Loss Management Programs

ICBC invests in road safety initiatives and fraud prevention that provide a direct benefit to customers through reduced claims costs. This ultimately assists in keeping premiums low and stable. We work with a network of partners across the province to deliver these programs, including the Ministry of Public Safety and Solicitor General, the enforcement community, the Ministry of Attorney General, the Ministry of Transportation and Infrastructure, municipalities, community groups, and volunteers. For more information, please visit **www.icbc.com** under *Road Safety*.

Non-Insurance Services

In addition to the Basic insurance and Optional insurance lines of business, we provide driver licensing services, vehicle licensing and registration services, and fines collection on behalf of the provincial government. We refer to the provision of these services as our non-insurance line of business. These non-insurance services are outlined in the Service Agreement between ICBC and the Province, and their costs are funded through Basic insurance premiums.

There have not been any significant shifts from our last Service Plan *(ICBC Service Plan 2010 – 2012)* in relation to our provision of insurance and non-insurance services, and in the delivery of loss management programs.

Key Business Partners and Stakeholders

ICBC delivers its services in partnership with:

- Independent insurance brokers who provide auto insurance products and services to the public and are guided by the agreement with ICBC's broker partners;
- A broad base of suppliers in the automotive industry, guided by performance-based agreements, and liaison groups such as the Automotive Retailers Association (ARA);
- The medical community to assist injured customers in getting well;
- Government agents and appointed agents that provide driver and vehicle licensing services in a number of communities where there are no ICBC offices;
- The Office of the Superintendent of Motor Vehicles and Police Services within the Ministry of Public Safety and Solicitor General, with whom we work together in a number of areas, including driver licensing and road safety;
- Road authorities, e.g., the Ministry of Transportation and Infrastructure, and municipalities to share costs of road improvements that decrease the frequency and severity of crashes;
- Police and enforcement agencies to enhance road safety; and
- A host of diverse community organizations, including business improvement associations and auto crime groups, which support the delivery of our safety and auto crime programs.

For more information, please visit the *Business Partners* page on **www.icbc.com**.

ICBC Points of Service

ICBC offers insurance products to more than three million policyholders through a province-wide network of approximately 900 independent brokers, government agents, and appointed agents. Our claims-handling services process almost one million claims per year through our 24-hour, 7-days-a-week, 365 days a year claims contact centre, our province-wide network of 38 claims servicing locations, and the various Express Glass and Repair facilities across the province. Information about the claims process can be found through **www.icbc.com**.

We also provide driver licensing services through 120 offices, including driver licensing centres, government agents, and appointed agents throughout the province.

We deliver our products and services in partnership with businesses and organizations in communities throughout British Columbia, including insurance brokers, auto repair facilities, and health service providers. Our partners are involved in different aspects of the insurance and claims processes such as the sale of our insurance product, repairs to damaged vehicles, provision of rehabilitation services, as well as management of road safety and loss management programs in conjunction with law enforcement agencies.

For further information on our points of service in British Columbia, please visit **www.icbc.com**.

Operating Structure

ICBC operates using an integrated business model. Although the majority of premium revenues and costs are specifically identifiable as Basic or Optional, certain costs are not tracked separately. For those revenues and costs that are not specifically identified as Basic or Optional, a pro-rata method of allocation is used to allocate the revenues and costs between the two lines of business. This method allocates revenues and costs to each line of business based on the drivers of those revenues and costs, the degree of causality, and any directives from our independent regulator, the BCUC, which are applied on a prospective basis. More on the role of BCUC can be found in the next section, *Governance*.

A breakdown of actual revenues and allocated costs can be found in the *Notes to Consolidated Financial Statements* section in our Annual Report, which can be found at **www.icbc.com**. Information on the allocation methodology can be found in BCUC's decisions on our submissions, which can be viewed at **www.bcuc.com**.

We continue to operate our business through an integrated business model, which provides economies of scale, and in turn, benefits the customer in terms of lower rates.

There have not been any significant shifts or changes in our business areas, program delivery or internal operating environment from the previous year.

Governance

ICBC's governance is defined through legislation applicable to all Crown corporations, and legislation specific to the company itself. ICBC's corporate governance is further defined by the Shareholder's Letter of Expectations between the minister responsible for ICBC as a representative of the Government of British Columbia, and the chair of ICBC's Board of Directors as a representative of ICBC. The Honourable Rich Coleman, Minister of Public Safety and Solicitor General, is the minister responsible for ICBC.

Legislative Framework

As a Crown corporation, ICBC is subject to the *Budget Transparency and Accountability Act (BTAA)*, the *Financial Information Act*, the *Financial Administration Act*, and the *Freedom of Information and Protection of Privacy Act*. Under these provincial laws, we are accountable for making public our strategic plan (i.e., Service Plan) and performance against the plan (i.e., Annual Report). In addition, we are required to provide financial and other information in accordance with the requirements of applicable legislation. In terms of providing Basic and Optional insurance and non-insurance services on behalf of government, ICBC must adhere to a number of acts, including:

- *Insurance (Vehicle) Act*
- *Insurance Corporation Act*
- *Motor Vehicle Act*
- *Commercial Transport Act*
- *Motor Vehicle (All Terrain) Act*
- *Insurance Premium Tax Act*
- *Consumption Tax Rebate and Transition Act*
- *Social Services Tax Act*
- *Offence Act*

ICBC as a Regulated Crown Entity

The BCUC, as the independent regulator for ICBC, approves Basic insurance rates and ensures that our provision of service for our Basic product is adequate, efficient, and reasonable. As we are the sole provider of Basic insurance, this regulatory environment is important for BC, providing customers with an independent and transparent review of our Basic insurance rates and an opportunity to be heard and involved in the review.

The BCUC's initial phase of regulation included financial allocation between Basic and Optional insurance lines of business, revenue requirements for Basic insurance, and Basic rate design. These elements have now been reviewed. We continue to work with the BCUC to achieve effective and efficient regulation that contributes to an open and transparent regulatory process for the setting of Basic insurance rates that meet customer expectation in this regard. More information on BCUC is available on its website, **www.bcuc.com**. ICBC's current regulatory proceedings can be found on **www.icbc.com** under *About ICBC*.

Shareholder's Letter of Expectations

The Shareholder's Letter of Expectations between the Government of British Columbia and the Corporation is an agreement on their respective roles and responsibilities, and on the corporate mandate including high-level strategic priorities, public policy issues, and performance expectations. It is reviewed and updated annually. For specific information, please refer to the section on *Alignment with Shareholder's Letter of Expectations* in this Service Plan.

ICBC Board Governance

The Board of Directors guides ICBC in fulfilling its mandate and sets our corporate direction. The Board and management approve our vision, mission, and values that guide us. The Board sets goals for our performance and these goals and associated objectives are the basis upon which accountability and performance are evaluated. Performance against these goals and objectives is reviewed and reported regularly.

The governance processes and guidelines outlining how the Board will carry out its duties of stewardship and accountability are set out in the *Board Governance Manual*, which is updated annually by the Board's Governance Committee. ICBC's Board complies with the *Board Resourcing and Development Office Guidelines* and has adopted the guiding principles included in the provincial government's *Governance Framework for Crown Corporations: Best Practices Governance and Disclosure Guidelines* (**www.fin.gov.bc.ca/brdo/governance/corporateguidelines.pdf**). For more detail on these governance principles, please refer to the Annual Report.

Further information on Board policies and members is available on our website, **www.icbc.com** under *About ICBC*.

Board Governance Structure

Board of Directors

Mandate: To foster the Corporation's short and long term success consistent with the Board's responsibilities to the people of British Columbia as represented by the Government of British Columbia.

Chair: Nancy McKinstry
Vice-Chair: Neil de Gelder
Members: Catherine Boivie, Carol Brown, Paul Haggis, T. Michael Porter, Jatinder Rai, Stacy Shields, Todd G. Stone

Executive Team

Mandate: The primary role of the Executive Team is to lead the management of ICBC's business and affairs, and to lead the implementation of the plans and policies approved by the Board of Directors (the "Board") of ICBC.

President & CEO: Jon Schubert
Members:
Mark Blucher, Senior Vice-President, Insurance;
Cindy Brown, Vice-President, Communications;
Ward Chapin, Chief Information Officer;
Sheila Eddin, Vice-President, Business Transformation;
Fred Hess, Vice-President, Driver Licensing;
Craig Horton, Senior Vice-President, Claims;
Len Posyniak, Vice-President, Human Resources;
Geri Prior, Chief Financial Officer;
Jeff Schulz, Vice-President, Strategic Marketing;
Donnie Wing, Senior Vice-President, Corporate Affairs;
Betty Weigel, Corporate Secretary.

Governance Committee

Purpose: To provide a focus on governance for ICBC and its subsidiaries that will enhance ICBC's performance.

Chair: Neil de Gelder
Members: Carol Brown, Jatinder Rai

Audit Committee

Purpose: To assist the Board in fulfilling its oversight responsibilities by reviewing: (i) financial information; (ii) systems of internal controls and risk management; and (iii) all audit processes.

Chair: T. Michael Porter
Members: Paul Haggis, Jatinder Rai

Investment Committee

Purpose: To recommend and review investment policy for both ICBC and any pension fund of which ICBC is an administrator.

Chair: Paul Haggis
Members: Nancy McKinstry, Neil de Gelder

Human Resources and Compensation Committee

Purpose: To assist the Board in fulfilling its obligations relating to human resource and compensation policies.

Chair: Nancy McKinstry
Members: Carol Brown, Jatinder Rai, Stacy Shields

Transformation Program Committee

Purpose: To assist the Board in overseeing the management of ICBC's business renewal efforts ("Transformation Program").

Chair: Neil de Gelder
Members: T. Michael Porter, Stacy Shields

Strategic Context

Industry and Competitive Context

The insurance industry is affected by external factors, risks, and regulatory trends which impact profitability and rate stability. The following section provides an overview of recent events that may pose risks to the insurance industry and consumers.

Profitability of Canadian Property and Casualty Insurance Industry

The Canadian property and casualty (P&C) market continued to weaken in 2009 following a year of instability in 2008. Increasing claims costs and the impacts of an unstable global economy challenged the industry; however, net income for P&C insurers in 2009 still improved by 35% to $2.2 billion over 2008.[2] Return on equity for the industry also improved slightly to 6.54%.[3]

The economic downturn had created significant instability in the financial markets, which in turn impacted insurers' capital levels built from previous years. Deteriorating performance was further exacerbated by low investment returns, which decreased investment income and created a stronger reliance on underwriting income. In 2009, the industry experienced an overall decline in underwriting results pushed by deteriorating loss ratios in many lines of insurance, particularly the automobile line in Ontario. During the first half of 2010, the industry results were mixed. While Ontario auto insurers continued to be challenged with increasing claims costs, overall, the rest of the industry saw some improvement.

Despite the continued volatility in financial markets and instability in the Canadian P&C market, ICBC's position is sound and we continue to fare well relative to the industry. Our strategy to reduce the growth of bodily injury claims, which includes streamlined claims handling and cost controls, and road safety enhancements, have contributed to our sound position. We have a conservative investment philosophy and are managing our insurance operations prudently, which allows us to keep rates low and stable over the long term for our customers.

Automobile Insurance

Automobile insurance is the largest class of insurance in the Canadian P&C industry, accounting for nearly half of direct premiums written within the industry.[4] The automobile insurance product offered in each province differs. Where BC is a tort system, some other provinces in Canada have an automobile insurance product that is based on some variant of no-fault or mixed no-fault and tort systems. No-fault systems are characterized by compensation that is based on predetermined benefit schedules regardless of who is at fault and there may be little or no ability to sue for further damages.

The auto insurance line in Canada has been negatively affected by increased loss ratios, especially for personal accident benefits, which deteriorated to 137.2%[5] in 2009 compared to 115.2% in 2008.[6] The auto insurance market has continued to show instability and deterioration.

Further impacts on the industry's operating environment in 2010 will be affected by two significant rulings and decisions in Ontario and Alberta.[7]

Ontario is the largest auto insurance market in Canada, and is based on a threshold no-fault system. It continued to face instability in 2009 as insurers writing auto lost an estimated $907 million.[8] In 2010, the growth in claims costs continued to exceed premium growth.[9] Some companies are turning to rate increases in order to improve their results.[10] To help stabilize rates and ensure affordability, the Ontario government introduced a package of automobile insurance regulatory reforms that took effect on September 1, 2010. The reforms focus on protecting consumers, increasing consumer choice, streamlining the auto insurance system, and reducing transaction costs. Under the reforms, consumers have standard medical and rehabilitation coverage of $50,000 for non-catastrophic injuries with the option to increase the limit to $100,000. The measures also place a $3,500 cap on soft-tissue injuries and stipulate a $30,000 deductible on pain and suffering.[11] It will take some time to see whether the reforms provide relief in 2011.[12]

[2] MSA/Baron Outlook Report Q4 2009, p. 4
[3] MSA/Baron Outlook Report Q4 2009, p. 4
[4] Canadian Underwriter 2010 Statistical Issue, p. 20
[5] MSA/Baron Outlook Report Q4 2009, p. 6
[6] MSA/Baron Outlook Report Q4 2009, p. 6
[7] Canadian Underwriter 2010 Statistical Issue, p. 20
[8] Canadian Underwriter 2010 Statistical Issue, p. 22
[9] Canadian Underwriter 2010 Statistical Issue, p. 20
[10] MSA/Baron Outlook Report Q2 2010, p. 3
[11] http://www.fsco.gov.on.ca/english/insurance/auto/reform/consumer.asp
[12] MSA/Baron Outlook Report Q2 2010, p. 3

The Alberta auto insurance market, the second largest auto insurance market for private insurers, had been facing significant challenges with the striking down of the cap on compensation for minor injuries in February 2008.[13] The cap was challenged on the grounds of being unconstitutional and as the court ruling was being appealed in the province's Court of Appeal, it caused significant uncertainty around how insurers should be pricing mandatory auto insurance. In December 2009, the Supreme Court of Canada upheld Alberta's cap on minor auto injuries, effectively closing the door for any further appeals.[14] Alberta insurers are now taking rate decreases due to the staying of the cap on minor injuries.

Insurers in the Ontario and Alberta markets are expected to focus on improving their results, especially in Ontario where performance has been greatly challenged, and the impacts of the regulatory reforms are not expected to be realized immediately. The recent updates relating to Ontario and Alberta are not expected to have an impact on auto insurance in BC, and therefore neither on ICBC or its policyholders.

Regulatory Trends

In addition to the changes to minor injury regulation in Alberta and regulatory reform in Ontario mentioned above, the insurance industry is also experiencing the following regulatory trends:

- The review of the *Bank Act*, which is due for completion in April 2012, is now underway. There likely will not be any major reforms coming out of this review, according to the federal government, as extensive changes in the regulatory framework have already been made as a result of the recent financial crisis. The existing position holds that banks cannot market or retail insurance from their bank branches. In October 2009, the Canadian government also announced its intention to introduce legislation that would prohibit banks from selling and marketing insurance products and services through their banking websites.
- Proposed legislation that would allow credit unions to operate like banks, including doing business in multiple provinces, could be restrictive to their current ability to sell insurance. Under the proposed new legislation, credit unions would also be subject to the same restrictions as other banks under the *Bank Act* with respect to distributing insurance from their branches and websites.

[13] MSA/Baron Outlook Report Q4 2007, p. 7
[14] Canadian Underwriter 2010 Statistical Issue, p. 20

Key Strategic Issues and Risks

Looking ahead to 2011 – 2013, we have identified a number of issues and risks that could impact our future performance.

Key Strategic Issues

Meeting Increasing Customer Expectations

Customers have increasing expectations around price, choice, convenience, and service. In addition, they want to be able to access services in a variety of ways, including face-to-face, via telephone or the Internet. Our business processes and systems are aging and require much-needed upgrades and renewal in order to adapt to changing business and customer needs and expectations. The relationship between price and value is by far the greatest influencer of customer purchasing behaviour. Continuing to provide value to all of our customers as their expectations increase will be an ongoing challenge, particularly in the face of claims cost pressures. As such, we will have to balance competing priorities so that we are able to allocate our finite resources between our various initiatives while continuing to run our operations with expected levels of customer service. A collaborative process with our stakeholders will help us to manage these various priorities.

Competition in the Optional Insurance Market

Based on premiums written, the BC Optional automobile insurance market has experienced growth over the past five years. There are over 30 private insurers, many of which are large multi-national insurers that sell some level of BC Optional auto insurance.[15] There are about five of the total private insurers that are considered to be our main competitors in the BC Optional auto insurance market. Although insurers may be adversely impacted by lower investment returns and the issues in the Alberta and Ontario auto insurance markets, we expect that the Optional market will continue to be robust and competitive in BC.

High-Risk Drivers

High-risk drivers are a serious concern as they cause a disproportionate number of crashes and these crashes are very costly, which in turn affect all of our customers' insurance premiums. There were more than 100 traffic fatalities and 3,000 injuries caused by impaired driving in 2008, and approximately 180 fatalities and 10,300 injuries caused by other high-risk driving behaviours such as excessive speed, failing to yield, and ignoring traffic control. We will be taking steps to increase personal accountability for high-risk driving through underwriting enhancements, which include higher premiums for higher risk drivers to help keep rates low and stable for safer drivers.

Automobile-Related Crime

Insurance costs for all British Columbians are impacted by automobile-related crime. This continues to be an area of focus for us and auto theft rates have declined by 61% between 2003 and 2009. The improving trends may be attributed to the positive results of the Bait Car Program, newer vehicles having built-in immobilizers, growing public education and awareness over the use of vehicle anti-theft technology, as well as strong partnerships with the police and community stakeholders on automobile-related crime prevention.

Evolving Business Environment

In an evolving business environment, it is important for us to continue innovating to better serve customers through examining and reinvesting in our people, business processes, and technology. Some of the challenges we face include an aging workforce and legacy Information Technology (IT) systems that are not easily adaptable.

Economic Environment

The current economy is seeing some improvement since the downturn, yet some challenges still remain in the economic environment. Interest rate, concentration, and credit risks are challenges in the current environment that we need to continue to monitor as we manage our investment portfolio and operational expenditures.

Key Strategic Risks

ICBC's Corporate Risk Management Framework is approved by the Board of Directors and defines the approach used to assess and manage corporate risk. Consistent with good governance practices and insurance sector practices, ICBC manages risk from an organization-wide perspective.

The Corporate Risk Framework considers both external and internal environments and the risks and challenges associated with each. The framework is used by ICBC executives and Board of Directors to discuss and monitor strategic risks and mitigation strategies. Managing corporate risk is an ongoing process as strategic risks evolve and new risks may also emerge over time. The framework uses ongoing monitoring and reviewing of the external environment and our corporate strategy, which allows us to actively manage corporate risk. As new risks are identified or if existing risks change, they may be reduced or eliminated through mitigation strategies or changes in the risk profile.

The key strategic risks and mitigation strategies identified on the following pages are considered and incorporated into our corporate strategy, as outlined in this Service Plan, and into detailed operational plans.

[15] Canadian Underwriter 2010 Statistical Issue, p. 50 and p. 52 (2009 Year-End Data)

Description of Risks:	Mitigation Strategies:
Objective: Improve Customer Perception	
• **Reputation** The risk that ICBC's reputation, or trust in ICBC, is negatively impacted due to perceived or real breaches in its ability, or the ability of third parties with which ICBC is associated, to conduct business securely, ethically and responsibly, and be customer-focused.	• ICBC's risk management framework explicitly considers the impact on ICBC's reputation associated with business practices and decisions. • We have ongoing brand-related work and proactive communications which aim to build customer trust and confidence in ICBC and awareness of ICBC's community involvement.
• **Business Partner and Stakeholder Management** The risk that business partners/ stakeholders who influence customers do not support the current business model and strategy.	• We will seek input from stakeholders so that changes to enhance customers' experiences and perceptions of price/ value are supported by partners and stakeholders.
• **Privacy** The risk that customers' and employees' trust in ICBC will be diminished due to breaches by ICBC or business partners in safeguarding their personal information.	• ICBC has data security measures in place, including Information Systems Security Policies governing the access and use of corporate data. • ICBC's Code of Ethics reflects its focus on protecting access to information. The company continues to undertake significant awareness campaigns internally and with our business partners on the importance of understanding our obligation to ensure privacy of customers' personal information. An annual review of ICBC's code of ethics, which includes privacy and access obligations, is required for all employees and contractors. • Privacy considerations have been embedded within the governance and approval processes for all projects, including our Business Renewal project, so that privacy is considered early in and throughout the project life cycle.
Objective: Improve Employee Experience	
• **Workforce Planning** The risk that ICBC cannot deliver its core business or change initiatives due to alignment, capability, capacity, and readiness of its leaders and employees.	• As we are undergoing business renewal efforts over the next 3–5 years, we are also actively managing workforce capacity to support delivery of our core business and change initiatives. • Our business renewal efforts will improve our business processes so that it is easier for our employees to continue to meet customers' needs. • We will continue to focus on recruitment, compensation, training, and leadership development to attract, develop, and retain talent for the future. • We will continue to refine our performance management program so that each of our employees is aligned to the successful achievement of our objectives.
Objective: Maintain Financial Stability	

• **Bodily Injury Claims Costs**
The risk that insurance rates increase due to bodily injury claims cost increases arising from internal or external factors:
  • Internal factors: claims handling;
  • External factors: increased claims fraud, severity, frequency and/or litigation.
	• Strategies to address crashes and claims costs are a priority for ICBC and include improvements to claims handling processes, public awareness campaigns on high-risk driving, the transition to risk-based pricing and other road safety activities.
	• ICBC completed a comprehensive review of its claims handling practices to identify opportunities for improvement from both a customer and an employee perspective. In response, we are renewing our aging technology and updating our business processes in order to be more customer-focused and provide better tools for our employees. These changes are expected to improve the efficiency and cost-effectiveness of our claims handling processes, contributing to ICBC's financial stability.

Description of Risks:	Mitigation Strategies:
• **Financial Markets** The risk that investments are insufficient to deliver on the insurance promise and/or unable to contribute to lower rates due to adverse changes in capital markets.	• ICBC's investment policy addresses ICBC's risk tolerance and investment goals, and specifies a long-term investment asset mix and fixed income duration consistent with these objectives. The policy is based on prudence and regulatory requirements, and provides guidelines for balancing the levels of risk and return in ICBC's investment portfolio. • ICBC follows a long-term strategy and diversifies its investment holdings to manage investment return fluctuations. • ICBC's corporate credit policy manages credit risk from an enterprise-wide perspective.
Other Significant Corporate Risks	
• **Business Renewal** The risk that ICBC does not fully achieve the intended outcomes of the Transformation Program currently underway.	• ICBC has developed a comprehensive governance model, to provide oversight to the Transformation Program. The model includes establishing a Transformation Program Committee of the Board of Directors, appointing a third party independent risk advisor to the Board, and internal reviews to monitor that the program continues to meet its stated objectives.
• **Technology** The risk that the business cannot achieve its objectives — whether they are operational or change objectives — due to any of the major technology or solutions not being available or becoming unsuitable, requiring additional time/cost/risk to change them.	• We are developing long-term technology requirements to meet our future business needs. • We will use proven methods, tools, and experienced technology partners to deliver technology solutions within the expected timeframe (e.g., principle of buying rather than custom building solutions to speed deployments with 'out of the box' functionality).
• **Access to Systems** The risk that system-dependent operations could be intentionally or accidentally compromised due to: • unauthorized access to ICBC's systems/data obtained; and/or • authorized access to information systems/data used inappropriately.	• An enterprise-wide Information Technology Security Program is in place, as well as the ICBC Code of Ethics governing access and use of corporate data. • Security requirements are considered in the acquisition and implementation of any new software packages.
• **Business Interruption** The risk that operations cannot be maintained or essential products and services cannot be provided due to business interruption arising from physical and/or technical events.	• ICBC's business interruption risk is managed through three related programs: Emergency Response Program (safe building evacuations, search and rescue, etc.), Business Continuity planning (continued essential customer services during interruption) and IT Disaster Recovery planning (ICBC's Data Centre). • Management is currently reviewing the design of ICBC's Emergency Response Program to ensure that the scale of the program is appropriate to the plausible risks ICBC might encounter. • ICBC conducts an annual test of both the business continuity plans and the IT Disaster Recovery Program with improvements made by management to ensure a successful recovery program. • ICBC has entered into an agreement with other BC government entities and Crown corporations to purchase data center services from a third party. The shared data centre solution will provide a secure and stable environment for ICBC's information systems.
• **Catastrophic Loss** The risk that ICBC's capital strength is eroded in the event of a major disaster.	• In the event of losses resulting from catastrophes such as an earthquake, ICBC has financial protection through a reinsurance program that is reviewed and renewed annually. Losses experienced in excess of a specified amount will be covered by the reinsurance policy up to the policy limits. • In addition to protection against individual catastrophic events, the reinsurance program protects ICBC against abnormally large losses by limiting the amount for which it is liable in any single event and in any given year.

Corporate Strategy

ICBC's current corporate strategy continues to be endorsed as the long-term strategy to guide the company. Our corporate vision, goal, objectives, and strategies have not significantly changed from the previous year.

ICBC's corporate vision is to be BC's preferred auto insurer, providing protection and peace of mind. With this vision, we remain focused on building trust with our customers by delivering improved customer experience and offering products and services that are of good value. We will improve business processes and efficiencies to deliver better customer experience, and also work toward providing customers with pricing that is more reflective of driver risk. Improving customer experience will also need the support of our employees. We will, therefore, continue to focus on enhancing the experience of our employees, by providing them with the tools and education to help them be successful, develop leadership capability, and build workforce readiness for change. We have had healthy financial results and as a result, have been able to protect our customers and provide greater value by keeping rates low and stable for the policyholders of British Columbia. We will continue to maintain financial stability by having a conservative investment philosophy and manage operating costs prudently.

Increasing customer expectations on products, service and price, and our aging technology systems are key issues in our current business environment. Through the Transformation Program, we will address these issues by renewing our business processes and systems through multiple projects that will collectively play a key role to support ICBC in achieving its corporate strategy. We will involve customers and business partners in our renewal effort to ensure any changes we make help us meet our goal of exceeding customer expectations. As we are continually presented with risks and opportunities in our business environment, we will remain diligent in allocating finite resources and implementing our corporate strategy.

We established three key strategies under our three corporate objectives. The strategies represent core areas of focus for the work that is underway to achieve our corporate goal and objectives over the next three years. Therefore, it is important to understand these strategies in the context of our overall vision, mission, goal, and objectives. For the purpose of the Service Plan, we have focused the discussion on the goal, objectives, and strategies levels.

Goal	
We must improve our customers' experiences and perceptions of us. We will do this by listening to, better meeting the needs of, and trusting our customers while maintaining low and stable auto insurance rates. To be successful, all of us must be empowered, engaged, and accountable for the actions we take to achieve this goal.	
Objective	**Strategies**
• Improve Customer Perception	• Understand our customers and exceed their expectations
• Improve Employee Experience	• Engaged, inspired, and confident leaders and employees
• Maintain Financial Stability	• Streamlined, efficient, and cost-effective systems and processes

Performance Management Systems

ICBC has a unique business model relative to other insurers in the P&C industry. Our business model is to set premiums to achieve and maintain our capital target rather than to maximize our return on capital. We operate exclusively within British Columbia under a full tort environment wherein the cost of settling a claim may be higher than in other jurisdictions that do not operate in the same system. We are mandated to provide automobile insurance to all drivers in BC. We provide auto insurance rates that are not based on age, gender or marital status. ICBC also provides a wide range of non-insurance services such as driver licensing, vehicle licensing and registration, and fines collection on behalf of the provincial government. Due to our unique business model, we do not set our performance targets based on industry benchmarks.

We do, however, use a "balanced scorecard" approach which embodies our corporate strategy. By using a balanced scorecard framework, we establish our strategic goals and related objectives, and our corporate performance measures are aligned with these goals and objectives. Our strategic plan and report on performance against our plan are reported externally through the Service Plan and Annual Report.

Our financial performance measures are derived from actual financial information and forecasted trends and assumptions. Key corporate performance metrics such as the combined ratio, loss ratio and expense ratio are benchmarked to P&C industry benchmarks and reported in the Annual Report. Non-financial performance measures are generated by external sources. Independent firms are retained to conduct ongoing surveys of customers for the purpose of monitoring satisfaction and an annual survey for the purpose of monitoring employee engagement.

Our divisional accountabilities are aligned to support the corporate strategy and, where applicable, corporate performance measures are cascaded down to the respective divisions. Other benchmarking studies focusing on specific areas of operation are undertaken to support improvement in management practices internally.

Divisional performance measures and targets are established annually and divisional performance measures are included in individual performance plans as appropriate. We hold a quarterly corporate performance update with executive and senior management, which includes an update on key financial results and performance measures, a forecast of year-end results, and a review of the corporate risk profile. Divisions also report on their performance results and highlight business issues as part of this quarterly update.

ICBC maintains and relies on risk management practices that encompass management, system and financial controls designed to provide reasonable assurance that tangible and intangible assets are safeguarded and transactions are properly authorized and recorded. The controls include written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic risk-based audits by the internal auditors who independently review and evaluate these controls. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. Policies and processes that require employees to maintain the highest ethical standards have been instituted.

ICBC recognizes the inherent limitations in all risk management frameworks and believes the current framework provides an appropriate balance between costs and desired benefits. We believe that the systems of management controls provide reasonable assurance that the strategic business risks have been appropriately addressed. The quarterly review by management and the Board of Directors of these strategic business risks provides a regular review process to ensure mitigation strategies are in place to reduce these risks to acceptable levels.

The Audit Committee, composed of members of the Board of Directors, oversees the corporate risk management process and financial reporting. The committee meets no less than quarterly with management, our internal auditors, and representatives of our external auditors, to discuss auditing, financial reporting, and internal control matters. The annual financial statements are audited by our independent auditors in accordance with Canadian Generally Accepted Auditing Standards. Beginning January 1, 2011, our financial statements will be in accordance with International Financial Reporting Standards (IFRS) and will be audited by our independent auditors on this basis.

Improve Customer Perception

Improving our customers' perceptions of us is a key strategic focus, and we will achieve this with a commitment to understand what is important to our customers and exceeding their expectations. In order to improve customers' perceptions of us, we will continue to maintain the high levels of customer satisfaction that we have achieved in the past, work on improving our customers' experiences, and continue to build trust with our customers.

Customers have increasing expectations around price, choice, convenience, and service. Throughout 2011 – 2013 and beyond, we will be working to improve processes and efficiencies at each critical customer touch point to improve our customers' perceptions of ICBC by delivering convenience and improved customer experience. This will include making processes more hassle-free and transparent for our customers. Our claims handling processes will be more efficient on our part, require less paperwork and save time for our customers. More choice in how customers deal with ICBC will be available, including face-to-face, via telephone or the Internet and including faster access to service through our key business partners such as our network of Express Repair shops.

As a part of our long-term strategy, we are also working to provide customers with improved pricing that is more reflective of driver risk, which supports the concept of increased driver accountability, where drivers can have a greater influence on their premiums by their driving behaviour on the road. Customer perception of price/value will be enhanced through improvements in our underwriting and pricing as we continue to move in the direction of driver-based pricing where premium rates are more reflective of driver risk.

In 2011, ICBC will continue to focus on improving driver safety and well-being in BC. We are committed to helping make roads safer through road improvement and intersection safety cameras to influence driving behaviour to reduce crashes, injury and death. We will be continuing with safety initiatives such as the *Driver Distractions* campaign, which reminds everyone that the use of a handheld device while driving is now prohibited in BC. The *Drive Smart* awareness campaign serves to remind drivers of the unwritten rules of the road, to remain safe, patient, courteous and alert while driving, and how speed and rushing can affect driving abilities and decision making.

We will also focus on improving customer perception of ICBC's positive attributes and the value it provides customers. To accomplish this we will inform and educate customers about the value of ICBC to them, through our external communication and marketing campaigns, which focus on building customer value, and also ongoing earned media including social media. On icbc.com we have also launched a new campaign which aims to inform customers about the things of which they said they wanted more information. Customers are also provided access to a fairness process within ICBC to ensure they are being treated fairly.

We will continue to work collaboratively with our partners and engage our key stakeholders to proactively manage customer relationships and reinforce our brand. Through our marketing and media programs and community involvement we will reinforce our brand by partnering with law enforcement and other stakeholders on awareness campaigns around road safety issues, community volunteer programs such as *Speed Watch* and *Lock Out Auto Crime*, and working with local municipalities on road improvement projects. Ongoing community programs include the United Way fundraising campaign and Giving Back to Communities, which is based on volunteering or team fundraising activities with registered charities.

Summary Performance Measures

Strategy	Performance Measures	2009 Actual	2010 Outlook	2011 Target	2012 Target	2013 Target
Understand our customers and exceed their expectations	Insurance Services Satisfaction	96%	97%	93%	93%	93%
	Driver Licensing Satisfaction	93%	94%	93%	92%	92%
	Claims Services Satisfaction	88%	89%	85%	85%	85%

Performance Measures

ICBC measures customer service performance based on the percentage of satisfied customers for each major transaction type: insurance product purchase, driver licensing, and claims. The design of ICBC's measures and targets reflects the inherent differences of these three key transactions.

An independent research firm is retained to conduct ongoing surveys of customers for the purpose of monitoring transactional satisfaction.

Insurance Services Satisfaction

Independent insurance brokers process over three million policies each year. The insurance services satisfaction measure represents the percentage of customers satisfied with a recent insurance purchase transaction and is based on surveys of approximately 4,000 customers over the course of a year. This measure is typically over 90% and indicates the positive relationship ICBC and its brokers enjoy with customers.

Based on results to date, the 2010 outlook is expected to be 97%, a one percentage point improvement from the 2009 actual results.

In the 2011 – 2013 period, we have set our target at 93%, which reflects historical satisfaction levels. We intend to maintain a high level of customer satisfaction while preparing for the renewal of technology and the changes to business processes associated with our Transformation Program.

Driver Licensing Satisfaction

Each year, ICBC conducts approximately 1.5 million transactions relating to the issuance of driver licences and driver exams. The driver licensing satisfaction measure is used to determine the percentage of customers satisfied with their transaction with ICBC, which includes renewing a licence, taking a knowledge test or undergoing a road test. This measure is weighted by the number of transactions for each type of service and is drawn from a sample of over 6,000 customers surveyed throughout the year.

The 2010 outlook for ICBC's customer satisfaction for driver licensing is 94%, an improvement of one percentage point from the 2009 actual results.

For 2011, the target has been set at 93%, which is consistent with historical norms. For 2012 and 2013, ICBC anticipates that with the implementation of new initiatives, we will need more time to explain these changes to our customers. This may have a negative impact on wait times and customer satisfaction levels may decrease during this transition period.

Claims Services Satisfaction

Almost one million claims are processed each year through ICBC's call centre, claim centres and specialty departments such as, but not limited to, commercial claims and rehabilitation services throughout the province. The claims services satisfaction measure represents the percentage of customers satisfied with a recent ICBC claims transaction and is drawn from a sample of over 30,000 customers surveyed throughout the year.

Based on results to date, the 2010 outlook is expected to be 89%, a one percentage point improvement from the 2009 actual results.

For 2011 – 2013, ICBC expects that claims services satisfaction may be impacted by the implementation of a new claims management system and changes to business processes. The target of 85% has been set to reflect historical norms.

Improve Employee Experience

Achieving ICBC's vision of being BC's preferred auto insurer involves a concentrated focus on customer needs. The company's corporate strategy includes the renewal of major business systems, processes, and tools, which in turn require the implementation of new roles and skills, organization design and working environments for employees. All of this is supported by a workplace that engages, inspires, and empowers our people, holds them accountable, and provides them with the necessary tools and support to deliver to their potential because they are confident in themselves, their roles, and the company.

ICBC's objective for improved employee experience involves aligning business systems and people needs. The company will continue its efforts to align performance management, the corporate competency framework, learning and development programs, and employee engagement efforts with increased focus on improving customer perception and renewing our business. We will also focus on developing workforce capability and capacity, and establishing "organizational readiness" to ensure an effective transition towards a more customer-centric business model.

The company also continues to value diversity in its workforce and will perpetuate the policies and programs that promote it, with a focus on representing the communities and customers ICBC serves.

In 2011, ICBC will continue focusing on improving employee experience through:

- Increased communication of our corporate strategy and plans to people managers and their teams;
- Improved change management to support employees through process and system changes;
- Expanded employee and manager involvement in our business renewal efforts;
- Employee recognition to reinforce the behaviours required to achieve the corporate strategy;
- Greater investment in employee wellness and development related to the corporate strategy; and
- A performance management program for all employees that will help build and maintain a high performance culture and ensure activities support our strategy of developing engaged, inspired, and confident leaders and employees.

Summary Performance Measures

Strategy	Performance Measures	2009 Actual	2010 Outlook	2011 Target	2012 Target	2013 Target
Engaged, inspired, and confident leaders and employees	Employee Engagement	49%	55%	55%	N/A*	N/A*

* Employee engagement is an annual measure. Targets are not set beyond the current year.

Performance Measures

Employee Engagement

A successful employee engagement strategy helps create a sense of community in the company's overall workplace environment. An engaged workforce fosters a connection between employees, the work they do and a belief that the company is successful and socially responsible, offers meaningful recognition, rewards career growth, and enables innovative thinking and input into decision making in order to deliver outstanding customer service. Employee engagement is the willingness of employees to commit and to contribute to company success, along with increasing their emotional attachment to ICBC and intention to remain with the company.

ICBC's success in improving employee engagement scores and the overall employee experience is measured in part on an annual basis using an employee opinion survey administered by a third party. Six engagement-related questions are asked, and a score is rendered representing the percentage of respondents whose average score on those questions is 4.5 or greater on a scale of one to six.

The employee opinion survey was sent to each of the approximately 5,200 ICBC full-time equivalent (FTE) employees in the fall of 2010. The participation rate was 84%, an increase of 4 percentage points from 2009. The 2010 result, at 55%, exceeded both the annual target of 51% and the 2009 actual of 49%, indicating that our efforts to improve employee experience are having a positive impact on ICBC's workplace environment.

Our employee engagement results have been reviewed in context with a number of other internal indicators around performance, recruitment, and retention. ICBC's approach in the past has been to establish an annual employee engagement target and focus on incremental improvements each year. The target for this measure is set annually with a focus on internal drivers of employee engagement rather than benchmark targets against other organizations. Targets are not set beyond the current year.

In 2011, we have set our target at 55%, equal to the 2010 actual result. One of the key factors affecting our employee experience is our outdated work tools and processes. Our goal is to maintain a workforce of engaged and committed employees while we do the transformative work necessary to modernize our systems and processes. Many of these changes will not be fully implemented until 2013 and beyond.

Maintain Financial Stability

Our financial strength over the past several years positions us to provide greater value to our customers by keeping rates low and stable. Basic insurance rates were held constant in 2009; in 2010, Basic rates were decreased by 2.4% on November 1st. Optional insurance rates were, on average, reduced by three per cent in both 2009 and 2010, for a total decrease of approximately 20% since 2005. To maintain financial stability, we are committed to managing claims costs, maintaining a conservative investment philosophy, and continuing to manage operating costs prudently, which will be critical in helping keep rates low and stable for our customers.

Achieving our corporate vision will require investment in the renewal of our aging technology, systems, and processes over the coming years and as a result, our operating cost structure is expected to increase. Our strong financial position, however, allows us to make this overdue investment in business renewal, which in the long term will allow us to better serve and provide greater value to our customers. The Transformation Program is necessary to support our corporate strategy and will be critical for delivering on the objectives of improving customer perception while also increasing the efficiency and effectiveness of our business.

The most significant cost pressure to our business continues to be the cost of bodily injury claims. Bodily injury costs are a major challenge for the insurance industry as a whole, particularly due to the increases in severity trends over the past several years. Managing the growth of bodily injury claims costs remains a key strategic focus for ICBC and strategies include claims handling based on risk and increased management oversight, and road safety enhancements.

Summary Performance Measures

Strategy	Performance Measures	2009 [1] Actual	2010 [1] Outlook	2011 [2] Target	2012 [2] Target	2013 [2] Target
Streamlined, efficient, and cost-effective systems and processes	Minimum Capital Test [3]	240%	220%	Minimum 170%	Minimum 170%	Minimum 170%
	Combined Ratio	100.8%	105.5%	107.8%	108.2%	109.8%
	Loss Ratio	81.4%	83.8%	85.3%	85.8%	86.8%
	Insurance Expense Ratio	16.4%	16.9%	18.1%	18.1%	18.1%
	Transformation Program Expense Ratio	n/a	0.9%	0.9%	1.1%	1.7%
	Non-insurance Expense Ratio	2.9%	2.9%	3.2%	3.2%	3.2%
	Expense Ratio (excluding DPAC)	19.3%	20.7%	22.2%	22.4%	23.0%
	Investment Return (Market Return)	Benchmark + 0.55%	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return

Notes

1. Financial information for 2009 Actual and 2010 Outlook was prepared based on Canadian Generally Accepted Accounting Principles (GAAP).
2. Financial forecast for years 2011 to 2013 was prepared based on International Financial Reporting Standards (IFRS).
3. Minimum Capital Test (MCT) is based on the *Guidelines for MCT for Federally Regulated Property and Casualty Insurance Companies, No: A*, dated March 2008 issued by the Office of the Superintendent of Financial Institutions Canada. Pursuant to legislative change effective April 2010, ICBC transfers its Optional surplus capital to the Government of British Columbia on an annual basis.

Performance Measures

Minimum Capital Test (MCT)

MCT is an industry measure set by the Office of the Superintendent of Financial Institutions (OSFI) for federally regulated insurance companies across Canada. The MCT is used to determine whether a company has sufficient capital levels to protect policyholders from financial risk and provide long-term financial stability.

Pursuant to legislative change effective April 2010, ICBC now transfers its excess Optional capital to the Government of British Columbia on an annual basis.

Based on results to date, the 2010 MCT outlook is forecast at 220%. The decrease in MCT from 2009 is due to the transfer of excess Optional capital to the Government of British Columbia. For 2010, the amount transferred or to be transferred is estimated to be approximately $580 million.

As a result of the legislative change and the new framework, the 2011 – 2013 MCT targets are set at minimum 170%.

Combined Ratio

The combined ratio is a key measure of overall profitability within the insurance industry. This measure is calculated as the ratio of all costs (claims costs, claims-related costs, administrative costs, acquisition costs, and non-insurance costs) to all insurance premium dollars earned. A ratio below 100% indicates an underwriting profit while a ratio above 100% indicates an underwriting loss. ICBC's combined ratio is slightly higher than the industry average. This is partially due to ICBC's mandate to deliver non-insurance services on behalf of government and these costs are reflected in the combined ratio. Also, ICBC uses its investment income to reduce premiums for its customers rather than to generate a return for shareholders as private insurers do. As a result of lower premiums, our combined ratio is higher.

The 2010 outlook for the combined ratio is 105.5%. This is higher than the 2009 actual of 100.8% due to our investment in the Transformation Program, higher acquisition costs, and higher claims costs. In 2010, ICBC began to invest in business renewal and replacement of aging technology. The impact to the combined ratio is an increase of approximately one percentage point. Even though current year claims costs benefitted from reduced traffic during the Winter Olympic Games, both severity and frequency were higher than in 2009 for injury claims. Acquisition costs were also higher as per the agreement with ICBC's broker partners.

Premiums earned reflect the flow-through of rate adjustments. Basic rates were not changed in 2009 and effective November 1, 2010, Basic rates were reduced by 2.4%. Optional rates were reduced by three per cent on average in both 2009 and 2010. Overall, the increase in premiums earned is expected to be moderate in the forecast period. Claims costs reflect current expectations regarding claims cost trends and operating costs will be higher due to our investment in business renewal and replacement of aging technology. For these reasons, the increase in costs is expected to outpace the increase in premiums, resulting in higher combined ratio targets for the 2011 – 2013 period.

Loss Ratio

The loss ratio is a key performance indicator within the insurance industry measuring profitability of the insurance product — the lower the percentage, the more profitable the product. This measure is calculated as the ratio of the total of claims costs and claims-related costs, including loss management costs, to total insurance premium dollars earned.

ICBC's loss ratio is typically higher than the P&C industry because our premiums are set to recover costs and to achieve and maintain capital targets. ICBC uses its investment income to offset rates for its customers, thereby allowing rates to be lower than they would be if ICBC had to generate an underwriting profit as private insurers do. As reflected in the expense ratio, we have lower relative operating costs and can pay more of each premium dollar towards claims and related costs; this results in a higher loss ratio. In addition, ICBC is also mandated to provide Basic insurance to all drivers in BC, including the category of high-risk drivers whose claims costs are proportionately higher. This results in a higher loss ratio for ICBC relative to those insurers who may limit their exposure to such business.

The 2010 outlook of 83.8% is higher than the 2009 actual of 81.4% primarily due to higher claims costs. Claims costs were unfavourable compared to the prior year due to increased claims severity, higher frequency of reported injury claims and an unfavourable discounting adjustment as a result of lower prevailing interest rates.

The 2011 – 2013 loss ratio targets reflect longer term claims costs trends and expected increases in claims-related costs.

Expense Ratio

The expense ratio is a standard industry measure for assessing the percentage of each premium dollar that goes to an insurer's expenses. This measure is calculated as the ratio of non-claims costs to total insurance premium dollars earned. It includes operating costs that are not directly related to servicing claims such as general administration, commissions paid to brokers, taxes paid on premiums written, product design (underwriting), and non-insurance costs such as those associated with driver and vehicle licensing and vehicle registration. To enable comparisons with industry benchmarks, the expense ratio excludes the impact of one-time, non-recurring items.

Beginning in 2010, ICBC's expense ratio consists of three key components: the insurance expense ratio, the Transformation Program expense ratio, and the non-insurance expense ratio. Segregating expenses in this manner allows ICBC to better manage the costs of operating its insurance and non-insurance businesses, and to reflect the costs of technology renewal and changes to business processes associated with our Transformation Program.

The overall P&C industry expense ratio for 2009 was approximately 29.8%.[16] For insurers who predominantly write auto insurance, the ratio was about 28.3%.[17] ICBC's expense ratio is lower than the industry average due to its ability to achieve economies of scale, the benefits of integrated operations, and lower marketing, underwriting, acquisition, and general administration costs.

The 2010 outlook expense ratio of 20.7% is higher than the 2009 actual of 19.3%. This change is mostly due to the impact of the Transformation Program, which increased the overall expense ratio by 0.9 percentage points. It is important to note that even with the additional costs associated with our business renewal efforts, ICBC's results are still lower than other automobile insurers. We continue to operate efficiently and manage costs effectively.

As part of its operations, ICBC incurs non-insurance expenses in providing driver licensing, vehicle licensing and registration, and fines collection on behalf of government. The non-insurance expense ratio represents the ratio of the operations and administration costs of ICBC's non-insurance business to total insurance premium dollars earned. The non-insurance expense ratio outlook, at 2.9%, is consistent with historical results.

The 2011 – 2013 targets reflect higher expense ratios mainly due to higher operating costs required for the reinvestment into our business through renewing our aging technology and enhancing the capabilities of our people. In addition, our overall expenses will be impacted by general inflationary increases, suppliers' increased costs, and higher acquisition costs in the future years.

Investment Return

Investment income is typically a significant component of any insurer's overall net income and plays an important part in reducing the cost of insurance. ICBC investment assets arise from funds set aside for unpaid claims, unearned premiums, and retained earnings. At the end of 2010, ICBC's investment portfolio had a carrying value of approximately $11.5 billion. The portfolio is managed in accordance with the Statement of Investment Policy and Procedures. This policy establishes guidelines for ICBC to manage the level of risk and return in the investment portfolio. The majority of investments are held in the form of fixed income investments such as bonds and equities to enhance returns and provide added diversification. The asset mix was developed with the Corporation's liability profile and cash flow needs in mind to cover future claims payments, whereas the investment income generated is used to reduce the premiums that would otherwise need to be collected from our policyholders.

Investment returns, which incorporate both change in market value of assets and income generated, are closely monitored. Individual asset class returns are measured relative to the performance of standard market benchmarks. As well, the return of the overall portfolio is measured against a policy benchmark, calculated as the average of individual asset class benchmark returns and weighted according to the portfolio's strategic asset mix. Asset class benchmarks and strategic asset mix are outlined in the ICBC Statement of Investment Policy and Procedures.

Given the heavy weighting in fixed income instruments, the ICBC investment portfolio is subject to interest rate risk. An increase in the interest rate would decrease the market value of fixed income holdings. However, ICBC's claim liabilities would also decrease as a result of a higher discounting rate used. To mitigate interest rate risk, the duration of ICBC bonds has been reduced and closely matches the duration of claim liabilities.

ICBC's fixed income portfolio is subject to credit risk. Credit risk will remain heightened as the economy struggles to recover from its recent downturn. To mitigate this risk, it is ICBC's investment policy to hold government and investment grade bonds. ICBC also performs its own internal credit analysis.

Economic growth is expected to be modest in the upcoming year. Interest rates are expected to remain low. The volatility in the financial markets will likely continue, particularly in the equity markets given the uncertainty around the strength of the economic recovery and European debt concerns. The Canadian dollar, relative to the US dollar, is expected to remain strong. ICBC is vulnerable to deterioration in equity markets and to currency fluctuations. Nevertheless, these risks are not unique to ICBC and are proactively managed by the Investment Department.

The 2011 – 2013 investment portfolio performance targets are set at the policy market benchmark return, net of fees and operating expenses. For performance measurement purposes, ICBC does not forecast the policy market benchmark return as it is the result of market forces beyond the company's control.

An external performance measurement service independently calculates returns at the portfolio, asset class, and investment manager levels.

[16] MSA Benchmark Report, Property & Casualty, Canada 2010 (Expense Ratio for Total Canadian Property Casualty Industry, including Lloyd's but excluding ICBC and Saskatchewan Auto Fund)
[17] MSA Benchmark Report, Property & Casualty, Canada 2010 (Expense Ratio for Auto Writers excluding ICBC and Saskatchewan Auto Fund)

Strategy Summary

ICBC's current objectives and targets on its high-level strategies are contained in the following table.

Objective	Strategy	Measures	Outlook [1]	Target [2]		
			2010	2011	2012	2013
Improve Customer Perception	Understand our customers and exceed their expectations	Insurance Services Satisfaction	97%	93%	93%	93%
		Driver Licensing Satisfaction	94%	93%	92%	92%
		Claims Services Satisfaction	89%	85%	85%	85%
Improve Employee Experience	Engaged, inspired, and confident leaders and employees	Employee Engagement	55%	55%	N/A [3]	N/A [3]
Maintain Financial Stability	Streamlined, efficient, and cost-effective systems and processes	Minimum Capital Test [4]	220%	Minimum 170%	Minimum 170%	Minimum 170%
		Combined Ratio				
		• Claims & Claims-related Expenses & Insurance Expenses	102.6%	104.6%	105.0%	106.6%
		• Non-insurance Expenses	2.9%	3.2%	3.2%	3.2%
		Total	105.5%	107.8%	108.2%	109.8%
		Loss Ratio	83.8%	85.3%	85.8%	86.8%
		Expense Ratio				
		• Insurance Expense Ratio	16.9%	18.1%	18.1%	18.1%
		• Transformation Program Expense Ratio	0.9%	0.9%	1.1%	1.7%
		• Non-insurance Expense Ratio	2.9%	3.2%	3.2%	3.2%
		Total	20.7%	22.2%	22.4%	23.0%
		Investment Return	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return	Policy Market Benchmark Return

Notes
1. Financial information for 2010 Outlook was prepared based on Canadian Generally Accepted Accounting Principles (GAAP).
2. Financial forecast for years 2011 to 2013 was prepared based on International Financial Reporting Standards (IFRS).
3. Employee engagement is an annual measure. Targets are not set beyond the current year.
4. Pursuant to legislative change effective April 2010, ICBC transfers its Optional surplus capital to the Government of British Columbia on an annual basis.

Alignment with Shareholder's Letter of Expectations

The 2011 Shareholder's Letter of Expectations affirms ICBC's mandate to provide Basic and Optional vehicle insurance to BC motorists, provide driver licensing and vehicle licensing and registration, and administer violation tickets and provide fee and fines collection services on behalf of the Province.

In addition to outlining government's general reporting framework and general directions, the 2011 letter also provides specific direction to ICBC, including the following:

Shareholder's Letter of Expectations	ICBC Alignment
Climate Change	
• Contribute to the BC Provincial Government's climate action objectives and comply with the requirement to be carbon neutral in accordance with the *Greenhouse Gas Reduction Targets Act*.	• ICBC established the 2007 baseline of the company's environmental footprint and implemented government's SMARTTOOL to track and report on the company's greenhouse gas emissions. • ICBC has met the requirement to be carbon neutral by 2010. • ICBC continues to implement initiatives to reduce our carbon footprint, e.g., continuing energy retrofits, further switch to 100% recycled office paper, building the new Driver Licensing Centre to LEED Gold standards, and a 10 month internal "Curb the Carbon" campaign to encourage employees to help reduce greenhouse gas emissions. • ICBC has sponsored campaigns that help drivers understand how good driving practices can reduce fuel costs, lower carbon emissions, and improve road safety.
Capital Management Frameworks	
• Comply with revised capital management frameworks for Basic and Optional insurance established by the Shareholder.	• ICBC is complying with the revised capital management frameworks for Basic and Optional insurance.
Transformation Program	
• Invest in ICBC's systems and processes as part of a Transformation Program to meet increasing customer expectations, better ensure the reliability of systems and improve options for customers, and implement more streamlined processes for employees that will improve customer service.	• ICBC has begun its multi-year Transformation Program, which includes multiple projects that will collectively help ICBC improve services and options for customers and will provide employees with the tools they need to be successful and to be able to better meet customer expectations.
Road Safety Laws	
• Support implementation of government's new road safety legislation and regulations including new impaired driving and motorcycle safety laws.	• ICBC works with government and stakeholders to implement road safety initiatives and supports these initiatives through public education and awareness strategies.

Shareholder's Letter of Expectations	ICBC Alignment
Other Initiatives	
• Ensure the Shareholder is advised in advance of the release of information requests under the *Freedom of Information and Protection of Privacy Act*.	• ICBC works with the Government of British Columbia through a process for *Freedom of Information and Protection of Privacy Act* requests that meets Government needs and does not delay response times.
• Comply with the international Payment Card (PCI) Data Security Standards.	• ICBC is fully compliant with the international Payment Card (PCI) Data Security Standards.
• Continue to support government's policy objectives with respect to off-road vehicles, identity management, climate action, updating the *Family Compensation Act*, and other road safety initiatives.	• ICBC is working with government to support government's policy objectives.
Administration of Government Initiatives	
• Work with the Shareholder to prepare an annual plan for all ICBC projects that support government initiatives for approval by Treasury Board.	• ICBC is working with the provincial government to establish an annual planning process for ICBC projects that are implemented in support of government initiatives.
Governance and Administrative Framework	
• Ensure that corporate priorities reflect government's goals.	• ICBC continues to align corporate priorities with government's goals.
• Comply with the Shareholder's requirements for Crown corporations, including reporting and information-sharing, Board appointment processes, *Public Sector Employers Act* and related requirements, rules related to lobbyists, etc.	• ICBC continues to comply with the Government of British Columbia's guidelines and directions for Crown corporations.

Any additional direction will be incorporated throughout the year and reported in the Annual Report.

Summary Financial Outlook

The financial forecasts take into consideration ICBC's plans to address the key strategic issues and risks facing the organization and changes in the external environment. Based on these plans, planning assumptions (see next page) are developed and are used to develop the financial forecasts below.

The net income outlook for 2010 is expected to be $361 million, as compared to the 2009 actual of $563 million. These results reflect higher premiums earned offset by higher claims and operating costs and lower investment income.

Throughout 2011 – 2013, ICBC will continue to plan, develop, and implement the changes needed to enhance its ability to compete while continuing to manage claims costs, control staffing levels, and support government-mandated priorities.

The forecast period takes into consideration the work we began this year in business renewal and replacement of aging technology. The multi-year Transformation Program will improve our customers' experiences by better meeting their needs, enable our employees to better serve our customers by putting the right systems and processes in place, and maintain low and stable auto insurance rates.

The net income forecast for 2011 – 2013 reflects expected growth in premiums, a return to longer term claims cost trends, and investment income based on current investment market conditions. Capital expenditures primarily comprise Transformation Program costs and the ongoing renewal of information technology and facilities. The forecast also takes into account the estimated Optional capital amounts that are to be transferred to the Government of British Columbia under the new legislative framework.

$ Millions	2009[1] (Actual)	2010[1] (Outlook)	2011[2] (Forecast)	2012[2] (Forecast)	2013[2] (Forecast)
Premiums earned	$ 3,650	$ 3,667	$3,692	$ 3,779	$ 3,873
Service fees	59	55	49	55	60
Investment income	532	508	527	530	553
Total revenue	**4,241**	**4,230**	**4,268**	**4,364**	**4,486**
Claims incurred (including prior years' claims adjustments)	2,650	2,752	2,816	2,905	3,021
Claims services and loss management	320	322	331	337	340
Insurance operations expenses	169	172	206	206	211
Transformation program	-	35	35	42	66
Acquisition costs (including DPAC adjustment)	435	480	471	476	489
Non-insurance expenses	104	108	119	121	124
Total expenses	**3,678**	**3,869**	**3,978**	**4,087**	**4,251**
Net income	**563**	**361**	**290**	**277**	**235**
Change in unrealized gains/losses during the year	303	91	(107)	(96)	(78)
Total comprehensive income	866	452	183	181	157
Total equity — beginning of year	2,751	3,617	3,266[3]	3,264	3,220
Transfer of excess Optional capital to the Government of British Columbia	-	(580)	(185)	(225)	(225)
Total equity — end of year	**3,617**	**3,489**	**3,264**	**3,220**	**3,152**
Represented by:					
Retained earnings — end of year	3,215	2,996	2,978	3,030	3,040
Accumulated other comprehensive income	402	493	286	190	112
Total equity — end of year	**$ 3,617**	**$ 3,489**	**$ 3,264**	**$ 3,220**	**$ 3,152**
Capital expenditures[4]	**$ 19**	**$ 44**	**$ 81**	**$ 84**	**$ 88**
Long-term debt	**Nil**	**Nil**	**Nil**	**Nil**	**Nil**

Notes

1. Financial information for 2009 Actual and 2010 Outlook was prepared based on Canadian Generally Accepted Accounting Principles (GAAP).
2. Financial forecast for years 2011 to 2013 was prepared based on International Financial Reporting Standards (IFRS).
3. 2011 Total equity — beginning of year includes IFRS transitional and pension and post-retirement accounting adjustments.
4. Major categories of capital expenditure include: facilities (land, building, and leasehold), vehicles, furniture and equipment, IT systems (computer equipment and software). Looking ahead, ICBC expects an increase in capital expenditure in the facilities category as the company maintains or replaces aging infrastructure, including replacement or upgrade of facilities, and in the IT systems category as critical business systems are renewed.

Assumptions

- Based on the current activity and investment market conditions, changes to planning assumptions pertaining to premiums and investment returns have impacted future years' forecasts.
- Prior years' claims reflect changes in the discounted value of unpaid claims.
- The outlook is based on the status quo business model and the company's expected investment in the Transformation Program.
- Effective November 1, 2010, Basic insurance rates decreased by 2.4% and Optional insurance rates, on average, decreased by 3%.
- Investment income as shown includes the expected interest, dividends, other income and realized gains/losses from the investment portfolio.
- These results reflect the overall operations of the business including Basic and Optional insurance and non-insurance activities.
- Claims incurred reflect current claims trends, vehicle population growth, and inflation.
- Driver Penalty Point Premiums were partially replaced by Driver Risk Premiums in 2009. The amount of Driver Penalty Point Premiums and/or Driver Risk Premiums included in the forecast is based on current estimates.

Forecast Risks and Sensitivities

Premiums

- 1% fluctuation means $37 – $39 million in net premiums.

Claims

- 1% fluctuation means $28 – $30 million in claims costs.
- 1% fluctuation in the unpaid claims balance means $60 – $66 million in claims costs.

Investments

- 1% fluctuation in return means $111 – $117 million in investment income.
- 1% change in investment balance means $5 – $6 million in investment income.

Market share

- 1% change in market share represents a $4 – $6 million impact on net income.

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ADDITIONAL INFORMATION

Additional information about ICBC is available at www.icbc.com

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